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Mexico

Citrus

Annual Report

2006

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Report Highlights:
Due to adverse weather in some producing areas, MY 2006/07 fresh orange production in Mexico is forecast to be relatively low compared to past years. Grapefruit production is also forecast to be low for MY 2006/07 due to the alternate production cycle of grapefruit trees. However, lime production is expected to increase slightly, driven by the increase in trees coming into production. Fresh concentrate orange juice production is forecast to increase in MY 2007, a result of stronger international demand.

Includes PSD Changes: Yes
Includes Trade Matrix: No
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SECTION I. SITUATION AND OUTLOOK

The fresh orange production forecast for MY 2006/07 is 3.6 MMT, 3 percent higher than MY 2005/06 production. Producers in Veracruz and San Luis Potosí, as well as the southern states, expect average production this year. The northern states, however, are expecting lower production figures due to adverse weather conditions, such as low temperatures at the beginning of the year. Frozen concentrate orange juice (FCOJ) production for MY 2007 is forecast to increase compared to MY 2006, due to higher international prices, which is enabling processors to increase the prices paid to fruit producers.

Although there are no official estimates, total production for Key limes and Persian limes for MY 2006/07 is forecast at 1.85 MMT, slightly higher than MY 2005/06. Assuming that weather conditions remain favorable, exports for MY 2006/07 are forecast at 412,000 MT, a 3 percent increase compared to MY 2005/06.

Grapefruit production for MY 2006/07 is forecast at about 320,000 MT, a nearly 9 percent decline from MY 2005/06. The alternate production cycle and low temperatures will affect overall yields and fruit quality, mainly in the Gulf area. Grapefruit exports for MY 2006/07 are forecast at 10,000 MT, an over three-fold increase from MY 20040/05. This sharp increase is primarily due to expected higher demand on the international market, led by European countries.

SECTION II. STATISTICAL TABLES

Fresh Orange Table

Mexico									
Oranges, Fresh					(HECTARES) (1000 TREES) (1000 MT)				
	2004	Revised		2005	Estimate		2006	Forecast	
	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New
Market Year Begin		11/2004	11/2004		11/2005	11/2005		11/2006	11/2006
Area Planted	334151	334151	334151	334151	334151	340000	0	0	340000
Area Harvested	309645	309645	309645	320000	320000	316000	0	0	320000
Bearing Trees	62548	62548	62548	64640	64640	63832	0	0	64640
Non-Bearing Trees	4950	4950	4950	2858	2858	4848	0	0	4040
Total No. Of Trees	67498	67498	67498	67498	67498	68680	0	0	68680
Production	4000	4000	4000	3800	3800	3500	0	0	3600
Imports	25	25	25	18	18	23	0	0	23
Total Supply	4025	4025	4025	3818	3818	3523	0	0	3623
Exports, Fresh	16	16	16	16	16	10	0	0	10
Fresh Dom. Consumption	3269	3269	3269	3402	3402	3053	0	0	3138
For Processing	740	740	740	400	400	460	0	0	475
Total Distribution	4025	4025	4025	3818	3818	3523	0	0	3623

Fresh Citrus, Other Table

Mexico									
Citrus, Other, Fresh					(HECTARES) (1000 TREES) (1000 MT)				
	2004	Revised		2005	Estimate		2006	Forecast	
	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New
Market Year Begin		11/2004	11/2004		11/2005	11/2005		11/2006	11/2006
Area Planted	144000	144000	142267	145000	145000	144000	0	0	145000
Area Harvested	139000	139000	135558	140000	140000	137700	0	0	138500
Bearing Trees	27105	27105	26434	27300	27300	26851	0	0	27000
Non-Bearing Trees	975	975	1308	975	975	1228	0	0	1267
Total No. Of Trees	28080	28080	27742	28275	28275	28079	0	0	28267
Production	1890	1890	1744	1900	1900	1800	0	0	1850
Imports	1	1	1	1	1	1	0	0	1
Total Supply	1891	1891	1745	1901	1901	1801	0	0	1851
Exports, Fresh	382	382	382	375	375	400	0	0	412
Fresh Dom. Consumption	1192	1192	1063	1207	1207	1095	0	0	1124
For Processing	317	317	300	319	319	306	0	0	315
Total Distribution	1891	1891	1745	1901	1901	1801	0	0	1851

Fresh Grapefruit Table

Mexico									
Grapefruit, Fresh					(HECTARES) (1000 TREES) (1000 MT)				
	2004	Revised		2005	Estimate		2006	Forecast	
	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New
Market Year Begin		11/2004	11/2004		11/2005	11/2005		11/2006	11/2006
Area Planted	18210	18210	17913	18230	18230	18000	0	0	18100
Area Harvested	16700	16700	13840	16000	16000	14700	0	0	14700
Bearing Trees	3139	3139	2602	3008	3008	2632	0	0	2763
Non-Bearing Trees	283	283	766	419	419	752	0	0	639
Total No. Of Trees	3422	3422	3368	3427	3427	3384	0	0	3402
Production	360	360	304	330	330	350	0	0	320
Imports	9	9	9	9	9	6	0	0	6
Total Supply	369	369	313	339	339	356	0	0	326
Exports, Fresh	11	11	9	8	8	3	0	0	10
Fresh Dom. Consumption	246	246	188	219	219	232	0	0	203
For Processing	112	112	116	112	112	121	0	0	113
Total Distribution	369	369	313	339	339	356	0	0	326

Frozen Concentrate Orange Juice

Mexico					Degrees 65Brix				
Orange Juice							(MT)		
	2004	Revised		2005	Estimate		2006	Forecast	
	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New
Market Year Begin		01/2005	01/2005		01/2006	01/2006		01/2007	01/2007
Deliv. To Processors	740000	740000	740000	400000	400000	460000	0	0	475000
Beginning Stocks	1000	1000	1000	3000	3000	1800	0	0	1000
Production	74100	74100	74100	40000	40000	46000	0	0	47500
Imports	900	900	900	620	620	1450	0	0	1450
Total Supply	76000	76000	76000	43620	43620	49250	0	0	49950
Exports	68200	68200	68200	35620	35620	41950	0	0	42350
Domestic Consumption	4800	4800	6000	5000	5000	6300	0	0	6600
Ending Stocks	3000	3000	1800	3000	3000	1000	0	0	1000
Total Distribution	76000	76000	76000	43620	43620	49250	0	0	49950

Key lime Wholesale Prices

KEY LIME WHOLESALE PRICES (PESOS / KG)			
Month	2005	2006	Change %
January	2.12	3.99	88.20
February	2.30	3.82	66.08
March	2.29	3.09	34.93
April	2.17	2.85	31.33
May	1.82	1.89	3.84
June	2.07	1.85	(10.62)
July	2.11	2.33	10.42
August	2,15	2.73	26.97
September	2.25	3.34	48.44
October	2.18	2.70	23.85
November	1.83	N/A	N/A
December	3.26	N/A	N/A

SOURCE: SERVICIO NACIONAL DE INFORMACION DE MERCADOS
AVR. EXCHANGE RATE FOR 2005 US$1.00 = $ 10.90 PESOS
EXCHANGE RATE OCT. 20, 2006 US$1.00 = $ 10.80 PESOS
*As 3er Week of October 2006

Persian lime Wholesale Prices

PERSIAN LIME WHOLESALE PRICES (PESOS / KG)			
Month	2005	2006	Change %
January	2.82	4.21	49.29
February	3.57	4.46	24.92
March	4.20	5.50	30.95
April	4.12	5.75	39.56
May	3.83	3.99	4.17
June	2.85	2.51	(11.92)
July	1.94	2.72	40.20
August	1.93	3.20	65.80
September	2.02	3.35	65.84
October	1.94	2.46*	26.80
November	1.71	N/A	N/A
December	2.09	N/A	N/A

SOURCE: SERVICIO NACIONAL DE INFORMACION DE MERCADOS
AVR. EXCHANGE RATE FOR 2005 US$1.00 = $ 10.90 PESOS
EXCHANGE RATE OCT. 12, 2005 US$1.00 = $ 10.80 PESOS
*As 3er Week of October 2006

Wholesale Orange Prices

WHOLESALE ORANGE PRICES (PESOS / KG)				
Month	2004	2005	2006	Change % 05/06
January	1.63	1.35	2.06	52.59
February	1.63	1.38	1.80	30.43
March	1.78	1.44	2.00	38.88
April	1.93	1.49	2.35	57.71
May	2.08	1.67	2.93	75.44
June	2.23	2.74	3.49	27.37
July	2.33	3.61	5.03	39.33
August	3.12	3.99	4.71	18.04
September	3.07	3.35	3.72	11.04
October	2.15	2.36	2.54*	7.62
November	1.66	2.17	N/A	N/A
December	1.50	2.07	N/A	N/A

SOURCE: SERVICIO NACIONAL DE INFORMACION DE MERCADOS
AVR. EXCHANGE RATE FOR 2005 US$1.00 = $ 10.90 PESOS
EXCHANGE RATE OCTOBER 20, 2006 US$1.00 = $ 10.80 PESOS
****Data as of 3er Week of October 2006***

Grapefruit Wholesale Prices

GRAPEFRUIT WHOLESALE PRICES BY MAIN PRODUCER STATES						
MONTH	MICHOACAN		TAMAULIPAS		VERACRUZ	
	2005	2006	2005	2006	2005	2006
JANUARY			3.50Θ	3.38Θ	3.60	3.43
FEBRUARY			4.20Θ	4.00Θ	3.67	3.44
MARCH			4.50Θ	4.21Θ	4.04	3.49
APRIL			4.50Θ	4.33Θ	4.29	3.48
MAY	4.15	4.62	4.50Θ	4.43Θ	4.62	3.60
JUNE	4.77	4.90	6.00Θ	4.62Θ		
JULY	5.03	5.55	6.00Θ	4.69Θ		
AUGUST				4.41Θ	4.50	
SEPTEMBER			4.00Θ	3.70Θ	5.00	3.60
OCTOBER			3.50Θ	3.18Θ	2.92	3.70
NOVEMBER					3.57	
DECEMBER					3.70	

SOURCE: SERVICIO NACIONAL DE INFORMACION DE MERCADOS
AVR. EXCHANGE RATE FOR 2005 US$1.00 = $ 10.90 PESOS
EXCHANGE RATE OCT. 30, 2006 US$1.00 = $ 10.70 PESOS
CIF Mexico City
Θ Tamaulipas crop price at the wholesalemarket of San Luis Potosí

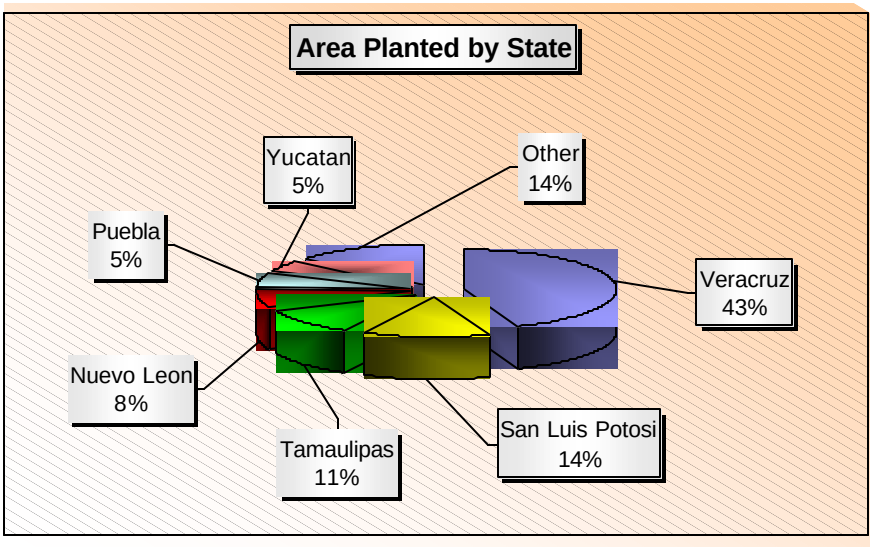
SECTION III. NARRATIVE ON SUPPLY & DEMAND, POLICY & MARKETING

FRESH ORANGES

PRODUCTION

Although there is not yet an official forecast for MY 2006/07 (November-October) fresh orange production, sources have indicated that overall production will be low relative to past years. This low production level is mainly attributable to adverse weather conditions, such as low temperatures at the beginning of the year, particularly in the northern states. Other states such as Veracruz and San Luis Potosí, as well as the southern states, are expecting average fresh orange production levels this coming year. Therefore, orange production for MY 2006/07 is forecast at about 3.6 MMT, or 3 percent higher compared to MY 2005/06 production. The MY 2005/06 fresh orange production estimate was revised downward to 3.5 MMT based on information from industry sources. This decrease in production was primarily driven by dry weather conditions in the northern states during the first quarter of 2005 that impacted the flowering of trees, and was compounded by strong rainfalls caused by hurricanes during September and October. Production for MY 2004/05 remains unchanged.

Area planted for oranges is forecast to remain at 340,000 hectares in MY 2006/07. The unfavorable weather conditions that prevailed during MY 2005/06 might deter growers from increasing the amount area planted for MY 2006/07. Area planted was revised upward for MY 2005/06 based on official newly revised estimates, but area harvested remains unchanged. Data for MY 2004/05 also remains unchanged. Orange producers do not expect an increase in the number of groves. In general, growers have been abandoning groves, or switching to other crops, due to high production costs, wide swings in fresh orange prices, and marketing problems. The historical increases in orange production have been predominantly a result of increased tree density, rather than an expansion in area planted. Each state has been making an effort to record more accurate statistical information about the citrus area, and official numbers have been updated accordingly.



Countrywide, orange yields for MY 2006/07 are forecast at 11.2 MT/ha. MY 2005/06 yields were 11 MT/ha, mostly attributable to adverse weather conditions. Orange yields differ widely depending on the production area. Typically, Veracruz yields range from 10 to 20 MT/ha. Yields in Nuevo Leon range from 12 to 15 MT/ha and, in San Luis Potosi, yields range

from 7 to 13 MT/ha. This variance in yields is caused by many factors, including; weather, frequency of fertilizer and pesticide applications, tree density, and quality of the terrain.

The MY 2006/07 forecast for oranges destined for processing is approximately 475,000 MT. The estimates for oranges destined for processing for MY 2005/06 were revised upward due to stronger than anticipated demand from the industry. The processing industry experienced a slowdown as a result of low international prices for frozen concentrate orange juice (FCOJ), which caused a decline in FCOJ production in Mexico in recent years. But the market experienced an unprecedented surge in FCOJ prices during 2006, and improved market conditions should help the industry to remain strong for 2007.

Production costs vary amongst citrus regions and producers. The average cost of production for a traditional grove with little intensive cultivation in Veracruz is approximately $4,700 pesos/Ha (U.S. $427.30/Ha), while the cost for a more intensively-farmed grove in Veracruz is $9,000 pesos/Ha (U.S. $818.20) or higher. Costs in Nuevo Leon range from $9,000 to $13,000 pesos/Ha (U.S. $818 to $1,182/Ha), significantly higher than those in Veracruz. Higher production costs are primarily attributed to irrigation costs, but can also be due to fertilization and pest control costs. These last two inputs account for approximately 40 percent of total production costs in Nuevo Leon, as this state is striving to be recognized as a low prevalence fruit fly area. Average field worker wages are about $70 pesos (U.S. $6.48) per day, but often producers have to pay $90 pesos (U.S. $8.33) per day or more to attract a sufficient number of workers.

Farm gate prices in Northern Veracruz began in October 2006 between $600 and $1,000 pesos/MT (U.S. $54.54 and $90.90/MT) for the early varieties, which is slightly lower compared to 2005 prices. Prices are expected to continue at high levels for the Valencia oranges that are harvested in December. Afterwards prices could be higher, depending on the processing industry demand. Transportation costs from Veracruz to Mexico City are usually $2,500 to $3,000 pesos per 10 MT (U.S. $227 to $272.75 per 10 MT) for one-day delivery.

CONSUMPTION

Fresh orange consumption for MY 2006/07 is forecast at 3.1 MMT. This represents a slight increase over MY 2005/06, due to strong consumer demand. Most of the oranges in the fresh market are destined for domestic fresh squeezed juice. Final domestic consumption estimates, however, will depend on the final volume of oranges purchased by the processing industry. The fresh orange consumption estimate for MY 2005/06 has been revised downward from the previous forecast to 3.05 MMT. This reduction was a result of fewer fresh oranges available than originally expected, at higher prices, with greater supplies of oranges are destined for processing. The MY 2004/05 consumption estimate remains unchanged. Wholesale Valencia orange prices for October 2006 began at approximately $2.50 pesos/kg (U.S. $0.22/kg) while retail prices ranged from $5.00 to $5.35 pesos/kg (U.S. $0.45 to $0.48/kg).

TRADE

Mexican orange exports for MY 2006/07 are forecast at 10,000 MT, the same as in MY 2005/06. Historically speaking, this is a rather low level of exports for Mexico, mainly attributable to the lower production levels. However, the final export figures will depend on U.S. demand and orange supplies from California and Florida. Most of Mexico's oranges that are exported to the United States are from Sonora, a state that produces very high-quality oranges. In recent years producers in Nuevo Leon have been increasing their orange exports to both the Unites States and Canada. Export estimates for oranges for MY 2005/06 were

revised downward from previous estimates due to a lower-than-expected supply of oranges. The estimates for MY 2004/05 remain unchanged. The United States continues to be the largest export market for Mexican oranges. Under NAFTA, tariffs and TRQs for fresh oranges have already been eliminated between Mexico and the United States.

Mexico signed a trade agreement on April 1, 2005 with Japan that included a duty-free annual quota of 10 MT of oranges for the first two years (i.e., MY 2005/06 and 2006/07). In MY 2007/08, the quota will increase to 2,000 MT, and then increase by 1,000 MT each year until it reaches 4,000 MT in MY 2009/10. In the agreement, duties for oranges had to be re-negotiated for 2007. Thus, Mexico has just negotiated a 50 percent MFN duty for oranges beginning on April 2007. Mexico exported over 2 MT of oranges to Japan in MY 2005/06.

Mexican orange imports for MY 2006/07 are forecast at about 23,000 MT. Mexico is a price sensitive market, and U.S. orange prices are relatively high compared to the domestic product. The import estimate for MY 2005/06 was revised upward due to stronger demand from the border region. MY 2003/04 orange imports remain unchanged.

MARKETING

U.S. citrus fruit exporters should be aware of the fact that the Mexican market is more sensitive to price than quality. This is one of the main reasons for limited exports of U.S. citrus products. Because of the excellent quality, U.S. oranges command a price four to five times higher than Mexican prices. Some attempts have been made by U.S. firms to enter the market, but they have had limited success because of strategies emphasizing quality rather than price. Due to phytosanitary restrictions, only citrus fruit coming from California, Texas, and Arizona can be exported to Mexico.

FRESH CITRUS, OTHER

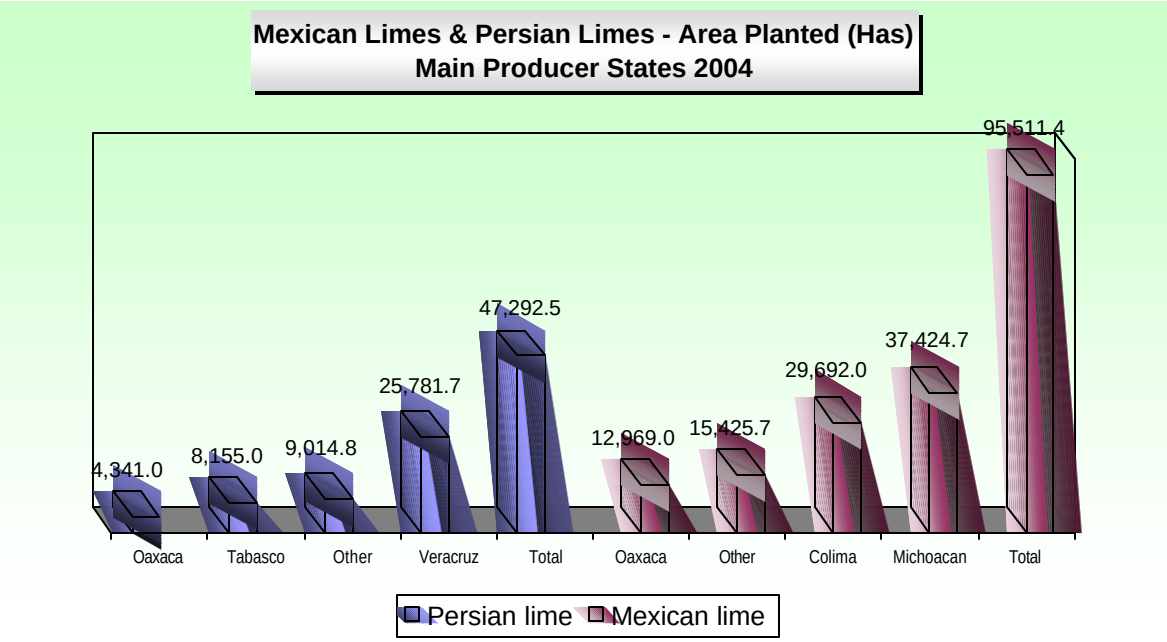
PRODUCTION

Key limes and Persian limes are economically very significant to Mexico. Mexican Key limes are grown mainly on the Pacific coast, in the states of Colima, Michoacan, Guerrero, and Oaxaca. Most Persian limes are grown in a micro-climate in northern Veracruz, followed, on a smaller scale, by the states of Tabasco, Oaxaca, Puebla, and Yucatan.

Although there are no official estimates, total MY 2006/07 production for both limes is forecast at 1.85 MMT, slightly higher than MY 2005/06, due to expected better weather conditions. MY 2005/06 production estimates were revised downward from previous estimates due to heavy rainfall resulting from storms and hurricanes in the Atlantic and Pacific growing areas that affected lime production areas. Excess rainfall resulting from the hurricanes had, at times, prevented the harvesting of limes, thereby driving up prices. MY 2004/05 production was revised downward based on final official data.

Area planted to both Persian and Key limes has increased in Mexico, due to the fact that limes command higher prices on the international market and generate few phytosanitary concerns. Persian limes planted area in Veracruz has grown at a faster rate than Key limes. In fact, many producers have replaced orange and grapefruit groves with Persian limes in order to take advantage of strong international demand and higher prices. Key lime planted area has increased at lower rates due to swings in the domestic price. Approximately 33 percent of total area planted is Persian limes, and 67 percent is Key limes. Michoacan has an excellent winter window (December – February), which allows its Key limes to hit the domestic market first; therefore, planted area has tended to expand more in this state.

According to producers, however, the domestic market is nearly saturated with Key limes, and therefore a substantial increase in Michoacan's area planted could lower prices for Key limes on the international market. Therefore, area planted for MY 2006/07 is forecast to continue growing, but at a slower rate. Estimates for area planted and harvested for MY 2005/06 were revised downward from previous estimates, however there were some increases in area planted in Veracruz and Colima. Area planted and harvested for MY 2004/05 was adjusted downward based on official estimates.



Nearly 20 percent of the Persian lime groves in Veracruz use micro-jet irrigation, or other irrigation systems, and produce year-round. Most of the irrigated Key lime groves are in the states of Michoacan and Colima, and are also able to produce year-round. In contrast, almost all the planted area for Key lime in Guerrero and Oaxaca is non-irrigated. In Colima, over half of the Key lime groves have coconut palm trees planted in between Key lime trees in order to increase producer revenue.

The Persian lime trade tends to be dominated by large producers who have achieved efficiencies of scale, and thereby have reduced production costs. Persian lime production costs average from $10,000 pesos/Ha to $12,000 pesos/Ha (U.S. $909.10 to $1,090.90/Ha) or more. These costs are due to higher prices for imported inputs such as fertilizers, pesticides, and other agrochemical products. Well-tended areas can have production costs as high as $15,000 pesos/Ha (U.S. $1,363.00/Ha). Transportation costs from Veracruz to Mexico City are usually $3,600 to $4,200 pesos/truck (U.S. $327.25 to $381.80/truck), and delivery time averages about 8 hours. The cost of production for Key limes varies according to the cultural practices and technology used. In the most important Key lime producing states (Oaxaca, Colima and Michoacan), production costs can vary from $7,300 pesos/Ha to $16,600 pesos/Ha (U.S. $663.63 to $1,509.00/Ha) for the well-tended areas.

Persian and Key lime yields differ widely depending on production conditions. The yields for Persian limes in Veracruz mostly range from 8 to 16 MT/Ha, depending on cultural practices,

but some yields are as high as 25 MT/Ha. Key lime yields average between 7 to 12 MT/Ha, with a few well-tended groves reaching 30 MT/Ha.

Grower prices for Persian limes range from $400 to $800 pesos/MT (U.S. $36.00 to $72.70/MT) for the domestic market, and $600 to $3,000 pesos/MT (U.S. $54.50 to $272.70/MT) for the export market during January to April. Grower prices for Key limes fluctuate more than prices for Persian limes, depending on the season and the producing state. On average, Key lime grower prices range from $800 to $3,000 pesos /MT (U.S. $72.00 to $272.70/MT). Michoacan production is geared towards the winter season (October/February), while production from Colima, Oaxaca, and other states cover the rest of the year.

CONSUMPTION

Domestic consumption of both Key and Persian limes in Mexico depends largely on prices. Consumption for MY 2006/07 is forecast at 1.1 MMT, a 2.6 percent increase compared to MY 2005/06, due to expected lower prices. Lime consumption estimates for MY 2004/05 and MY 2005/06 were revised downwards due to a lower demand of limes at higher prices.

Persian limes that do not meet the higher quality requirements demanded of the export market will be consumed domestically. Most of the Key limes go to the fresh domestic market, although exports have been increasing recently. In general, approximately 16 to 20 percent of total Key lime production goes to processing. Producers from Colima and Michoacan indicate that approximately 30 percent of their limes go to processors. Official information on the processing industry, however, is unavailable. About 50 to 60 percent of Persian limes from Veracruz go to the export market and the rest go to the fresh market and processing plants. This balance, however, depends on U.S. demand.

Mexican Key limes and Persian limes compete for the same market. When Key limes and Persian limes are both present in the domestic market during peak season, prices are relatively low. When the Persian lime harvest season is at its peak (June to September), prices for both tend to fall. After two or three months, however, when Persian lime growers begin to export, prices for Persian limes increase and remain high until April or May, when exports of Persian limes decrease and both crops compete for the fresh domestic market. Key limes from Michoacan, Colima, and Oaxaca are sold on the wholesale market in 18-20/kg boxes; those from Guerrero are sold in 20-22/kg bags. Persian limes are sold in the wholesale market in 50-100/kg bags.

TRADE

Persian and Key lime exports for MY 2006/07 are forecast at 412,000 MT, a 3 percent increase compared to MY 2005/06, assuming that international demand remains strong. Exports estimates for MY 2005/06 were revised upward due to a strong international demand and higher prices. According to producers, Persian limes from Mexico supply about 40 percent of the U.S. and Canadian markets. However, lime producers are expanding into new markets in Japan and Europe. MY 2004/05 exports remain unchanged. International prices for Persian limes reach between U.S. $20-$30 per 40-pound box during winter. MY 2005/06 prices for Persian limes on the international market were unusually high during the winter months, as much as U.S. $50 per box, and decreased to U.S. $4 to $6 per box at the end of the season in October 2006.

Lime imports continue to be minimal due to ample domestic supplies. MY 2006/07 imports are forecast at 1,000 MT. Data for MY 2004/05 and MY 2005/06 remains unchanged. Mexico's tariff rate on imported limes from the United States is zero under NAFTA.

FRESH GRAPEFRUIT

PRODUCTION

Although there is no official forecast for grapefruit production for MY 2006/07, producers believe production will be lower compared to MY 2005/06. Grapefruit production is forecast at 320,000 MT, a nearly 9 percent decline from MY 2005/06 production. The alternate production cycle and low temperatures will affect overall yields and fruit quality, mainly in the Gulf area. Michoacan was not as affected as the other grapefruit producing states. Grapefruit production for MY 2005/06 was revised upwards due to more acreage coming into production and relatively favorable weather conditions. The production estimate for MY 2004/05 was revised downwards based on official data.

Area planted has recently fluctuated from 17,000 to 18,000 hectares, depending on price variations and weather. Area planted for MY 2006/07 is expected at 18,100 hectares, as the rate of growth in newly developed areas has slowed. Area planted, as well as area harvested, for MY 2005/06 was revised downward from previous estimates due to the same slowdown in planted area, however, more trees came into production, mainly in the state of Michoacan. Although Veracruz, the state with the largest grapefruit production, increased area planted this past year, abandoned areas in other parts of the state have offset this increase. Area planted and harvested for MY 2004/05 was revised downward based on official information and unfavorable weather conditions. Costs of production for grapefruit fluctuate between $8,000 to $11,000 pesos per hectare, (U.S. $727.30 to $1,000.00/Ha) or more. These costs are mainly attributable to higher prices for imported inputs such as fertilizers, pesticides, and other agrochemical products.

There are two types of grapefruits planted in Mexico: the red table varieties produced in Tabasco, Campeche, Michoacan, Nuevo Leon, and Veracruz, which are mainly for export to the United States and Europe as fresh fruit and peeled slices; and the white fleshed varieties produced in Tamaulipas and Veracruz, which are mainly for juice production or for peeled slices. According to growers, planting of red varieties grew because of increased export demand.

According to growers and the industry, about 20 percent of grapefruit production is destined for processing. However, that number largely depends on demand for peeled fruit on the international market, and demand for juice on the domestic and international market. The MY 2006/07 forecast for grapefruit destined for processing is 113,000 MT, about seven percent less than MY 2005/06, due to a lower demand from the juice industry and high stocks of grapefruit juice. The estimates for MY 2005/06 were revised upward from previous estimates due to an expected greater demand for grapefruit juice from the United States and more fruit demand from the processing industry. Estimates for MY 2004/05 were revised upward due to greater demand from the processing industry. However, this information is difficult to verify since it is not published by official sources, and companies treat it as confidential information.

Overall average yields for MY 2006/07 are forecast at 21.7 MT/Ha, lower compared to MY 2005/06, due to the alternate production cycle. Average yields for MY 2005/06 are estimated at 23.8 MT/Ha. An overall normal yield for grapefruit is approximately 23 MT/Ha. Veracruz accounts for about 58 percent of Mexican grapefruit production and has the highest yields in the country with yields between 20 to 30 MT/Ha. Michoacan follows with 14 percent of production and yields between 9 to 15 MT/Ha. Nuevo Leon accounts for almost 8 percent of total production of grapefruit and generally has yields of 16 to 21 MT/Ha. In other states, yields vary from 7 to 15 MT/Ha.

Grapefruit prices for 2006 continue to be relatively high due to greater demand from the fresh market and the processing industry. Grower prices in Veracruz for the red varieties averaged from $1,000 to $2,000 pesos/MT (U.S. $90.90 to $182/MT) for MY 2005/06. The grower price of the white variety of grapefruit is cheaper at about $600 to $800 pesos/MT (U.S. $54.55 to $72.70/MT). Although prices tend to drop by November, prices are, in fact, increasing due to greater demand and lower production levels. Michoacan has developed areas with red varieties that can be harvested in June/July, and grower prices tend to be higher than Veracruz grower prices because fruit gets to the market earlier in the season. During MY 2005/06 processing plants paid about $900 to $1,300 pesos per ton (U.S. $81.80 to $118.20 per ton) for white varieties. Due to higher juice inventory levels, the industry decided to limit prices for fresh grapefruit during MY 2006/07 to about $700 to $900 pesos per ton (U.S. $ 63.65 to $81.80 per ton). Although prices tend to drop by November, prices in fact are increasing due to greater demand and lower production.

CONSUMPTION

Grapefruit fresh consumption for MY 2006/07 is forecast at 203,000 MT, or 12.5 percent less than MY 2005/06 consumption, due to lower availability of fruit and higher prices. Fresh grapefruit consumption for MY 2005/06 was revised upward to 232,000 MT from previous estimates due to a strong consumer demand for low calorie foods. Fresh grapefruit consumption for MY 2004/05 was revised downward to 188,000 MT because of a lower fresh market demand and greater demand from the processing industry.

Wholesale prices for the red grapefruit variety for November 2006 in Mexico City began at approximately $4.00/kg (U.S. $0.36/kg) for the Veracruz crop, an increase compared to last year's price of $3.57 (U.S. $0.29/kg). Retail prices for November 2006 began at $5.40 per kg (U.S. $0.50/kg) for fresh red varieties. Growers indicate that there is no premium on quality, as consumers are more interested in lower prices. Since Michoacan can harvest earlier than Veracruz, Michoacan producers can often command higher prices in the domestic market. Michoacan wholesale prices for July/September ranged from $4.60 pesos/kg to $5.60/Kg (U.S. $0.42 to $0.51/kg).

TRADE

Grapefruit exports for MY 2006/07 are forecast at about 10,000 MT, due to expected greater demand on the international market. According to growers, demand from Europe is growing steadily since their sources in South Africa have diverted product to other countries. Exports for MY 2005/06 were revised downward due to a lower demand from Europe, as international markets were saturated with product from South Africa. Grapefruit exports for MY 2004/05 were also revised downward as international demand was lower than expected. Although grapefruit exports are geared to the European and Japanese markets, exports are still small.

Grapefruit imports for MY 2006/07 are forecast at 6,000 MT, however, imports could grow depending on demand from the processing industry. Imports for MY 2005/06 were revised downward to 3,000 MT, due to a lower production in the U.S. and higher international prices. Imports for MY 2004/05 remain unchanged. In general, exports to Mexico will still be relatively insignificant. According to sources, most of the imported grapefruit from the United States is further processed for re-export to the U.S. and European markets

FROZEN CONCENTRATE ORANGE JUICE

PRODUCTION

Reliable frozen concentrate orange juice (FCOJ) production numbers are difficult to obtain, as there are no official statistical data available. Industry tends to keep partial information, most of which is proprietary. According to industry sources, FCOJ production for MY 2007 (January-December) is forecast at 47,500 MT, as long as enough fresh oranges are available for the processing industry. Juice production depends heavily on the international price of FCOJ. Higher prices realized on the international market enable processors to increase the prices paid to fruit producers. FCOJ future contracts for CY 2007 are relatively high, currently above U.S. $1.80/lb. Prices for CY 2006 were also relatively high, ranging from U.S. $1.50/lb to U.S. $1.80/lb. The present situation of higher FCOJ prices will lead to higher industry profit margins, as in 2006. Naturally, limited supply also tends to drive up prices for fresh fruit. The industry bought fruit at the end of the 2006 season at approximately $900 to $1,250 pesos/ton (U.S. $82 to $113/ton), compared to $430 to $500 pesos/ton (U.S. $38.05 to $44.24/MT) in March 2005. Prices are expected to remain similar for MY 2007. The FCOJ production estimate for MY 2006 was revised upward to 46,000 MT due to better international prices for FCOJ, and greater international demand. FCOJ production for MY 2005 remains unchanged.

Due to financial problems within the processing industry, there has been a concentration in ownership. Of the 22 Mexican juice plants previously in operation, only 7 plants are currently running.

CONSUMPTION

The industry believes that, in general, FCOJ consumption has been increasing due to a growing demand for orange juice in beverages and products with orange flavorings. Therefore, MY 2007 FCOJ consumption is forecast at 6,600 MT, an increase of 4.7 percent, compared to MY 2006. However, the majority of Mexican consumers prefer fresh squeezed juice over processed orange juice. Consumption for MY 2005/06 was also revised upward reflecting an increase in demand from hotel chains and restaurants for FCOJ, and in products with orange juice flavorings. Most of the orange juice produced in Mexico goes to the export market. According to processors, the need to have a large carryover of FCOJ from one year to the other has decreased. Therefore, MY 2005 and 2006 ending stocks were revised downward.

TRADE

Exports of FCOJ for MY 2007 are forecast at 42,350 MT, an increase of about 1 percent over MY 2006 exports. Due to continued strong international prices, exports could increase if demand from the Florida processing industry remains strong. FCOJ exports for MY 2006 were revised upward due to strong international demand and higher prices. The United States is the main market for Mexican FCOJ, followed by Japan and European countries. According to industry sources, Mexico is exporting more juice to Europe and Japan in order to take advantage of the lower tariffs it enjoys under the trade agreements that it has with those countries. Exports for MY 2005 remain unchanged. FCOJ is imported to cover industry needs for mixing purposes, as well as to meet demand from hotels and restaurants. Nonetheless, these imports are still marginal compared to domestic production. FCOJ imports for MY 2007 are forecast at 1,450 MT, the same as in MY 2006. Imports for MY 2006 were revised upward due to greater demand from the industry. MY 2005 imports remain unchanged.

FCOJ is one of the few remaining agricultural products still subject to a tariff and TRQ under NAFTA. There is currently a 40 million gallon quota on FCOJ from Mexico. The 2006 in-quota duty is zero, while the over-quota duty is 3.145 U.S. cents per liter. In 2007 the quota and the in-quota duty will remain the same, while the over-quota duty will drop down to 1.5725 U.S. cents per liter. In 2008 this TRQ will be completely phased out in accordance with the NAFTA.

Under Mexico's free trade agreement with the European Union (EU), the EU allows entrance 30,000 MT of FCOJ from Mexico with a tariff set at 25 percent below the 20 percent MFN duty, or 15 percent. Mexico will also ship product to Japan under the trade agreement that allows entrance of 3,850 MT at one-half of the 20 percent MFN tariff duty, or 10 percent. During MY 2005, Mexico exported about 21,000 MT to the EU and Japan.